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REPORT TO THE CONGRESS



Use Of The Second-Phase Method
Of Contracting--A Method That
Does Not Encourage Maximum
Price Competition B-163379

General Services Administration

FILE

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

JAN. 10, 1969

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D I G E S T

WHY THE REVIEW WAS MADE

The General Accounting Office (GAO) has issued three reports to the Congress on savings available through the use of the formal advertising method of procurement rather than through the contracting method known as second-phase negotiation. Those reports dealt with light bulbs and tubes, automotive tires and tubes, and aircraft tires.

Under the second-phase method, GSA requests suppliers of similar items to submit prices at which they are willing to sell their products to the Government. GSA then affords those suppliers which have submitted higher priced offers an opportunity to meet the lowest price offered.

Those suppliers which agree to meet the lowest price are awarded a contract and are listed in a GSA Federal Supply Schedule (Schedule) as available suppliers for the item. Government agencies then may purchase their requirements at the same cost from any listed supplier of that item.

In each of the three reports referred to, GAO showed that the use of the formal advertising method was practical for many items and that the Government could realize substantial savings if this method of contracting were used.

GAO therefore undertook a review to determine whether GSA was using the second-phase method to establish contracts for other commodities.

FINDINGS AND CONCLUSIONS

GAO found that GSA was using the second-phase method in establishing contracts for three additional commodity groups--sound-recording and instrumentation tapes, heavy-duty electrical batteries, and lithographing plates. It appeared to GAO:

- that the use of formal advertising was practical for many of these items because Federal specifications had been established and there was a sufficient number of suppliers to permit effective competition for the Government's requirements, and

--that, for the remaining items, the opportunity for GSA to obtain fair and reasonable prices would be enhanced if independent negotiations were conducted with each potential supplier.

GAO believes that the second-phase method does not encourage maximum price competition because there is no incentive for a supplier to initially submit the lowest price at which he is willing to sell. When GSA gives suppliers a second opportunity to submit price offers, the suppliers must generally only match the lowest price previously offered in order to be included on the Schedule for an item. Thus, the second solicitation of price offers results in additional suppliers, not in more favorable prices to the Government.

GAO concluded that GSA should discontinue the use of the second-phase method since it is not in the best interests of the Government.

RECOMMENDATIONS AND SUGGESTIONS

GAO is recommending to the Administrator of General Services that GSA:

- discontinue the use of the second-phase method of contracting,
- take the necessary steps to use formal advertising in establishing Schedule contracts where practical, and
- use independent negotiations in establishing Schedule contracts for items that are not susceptible to formal advertising.

AGENCY ACTIONS

The Administrator of General Services advised GAO in August 1968 that GSA agreed that formal advertising should be used in establishing Schedule contracts whenever practical and feasible and that due consideration should be given to the total cost of supply. The Administrator advised GAO further that existing Federal specifications for sound-recording and instrumentation tapes, heavy-duty electrical batteries, and lithographing plates were not adequate for competitive procurement and that, until such time as the specifications could be appropriately revised, GSA planned to award future Schedule contracts for these commodities through independent negotiations.

In October 1968, GSA advised GAO that progress was being made in the development of specifications adequate for formal advertising.

ISSUES FOR FURTHER CONSIDERATION

None.

LEGISLATIVE PROPOSALS

None.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-163379

To the President of the Senate and the
Speaker of the House of Representatives

We are presenting our report on General Services Administration's use of the second-phase method of contracting-- a method that does not encourage maximum price competition.

Copies of this report are being sent to the Director, Bureau of the Budget, and to the Administrator of General Services.

A handwritten signature in cursive script, reading "Thomas P. Aerts".

Comptroller General
of the United States

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ISSUES FOR FURTHER CONSIDERATION

None.

LEGISLATIVE PROPOSALS

None.

INTRODUCTION

The General Accounting Office has made a review of the method used by GSA to establish Federal Supply Schedule contracts for certain commodities. Our review, undertaken as part of our continuing effort to identify ways and means of obtaining maximum competition in Government procurement, was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We reviewed all Federal Supply Schedule contracts to determine what commodities were being procured under contracts established through the second-phase method. We then limited our review to those commodities identified in order to evaluate the practicality of using alternative methods of contracting.

The review, conducted during fiscal year 1968, included an examination of various procurement documents, such as invitations for bids, contracts, and suppliers' sales reports, and interviews with GSA officials. Our work was performed mainly at the GSA central office in Washington, D.C.

BACKGROUND

The Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471) made GSA responsible for providing an efficient and economical system for the procurement of personal property and nonpersonal services needed by Federal agencies. The Federal Supply Service operates GSA's Government-wide procurement program under which supplies, equipment, and services are made available to Federal agencies through (1) a stores stock program, (2) a nonstores, direct delivery program, and (3) a Schedule contract program.

Under the Schedule contract program, certain common-use supplies are made available to Federal agencies from suppliers under indefinite quantity contracts. The contracts are listed by commodity classifications in Schedules which are published in catalog form. Each Schedule sets

forth for each contract the specific items that may be procured thereunder, the price, and other contract terms and conditions essential for Federal agencies to place orders directly with the suppliers.

More than 700,000 items are made available to Federal agencies under the Schedule contracts. During fiscal year 1968, procurements under Schedule contracts amounted to about \$1.2 billion.

In some cases Schedule contracts are awarded by GSA on a negotiated, multiple-award basis rather than on a formally advertised basis. Generally, negotiated, multiple-award contracts are awarded when the Government's varying requirements with respect to quantity, quality, size, and type of a product cannot be met by any one supplier, such as for computers and laboratory equipment.

The principal officials responsible for administration of the activities discussed in this report are as follows:

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
Administrator of General Services:		
Lawson B. Knott, Jr.	Nov. 1964	Present
Bernard L. Boutin	Nov. 1961	Nov. 1964
John L. Moore	Feb. 1961	Nov. 1961
Franklin Floete	Mar. 1956	Jan. 1961
Commissioner, Federal Supply Service:		
H. A. Abersfeller	May 1964	Present
C. D. Bean	Sept. 1956	May 1964

FINDINGS AND RECOMMENDATIONS

NEED TO DISCONTINUE THE USE OF THE SECOND-PHASE METHOD OF CONTRACTING

On the basis of our review, we believe that the second-phase method of establishing Schedule contracts does not encourage maximum price competition and that GSA should discontinue its use. We believe that, as alternatives, GSA should use formal advertising where practical and independent negotiations with each potential supplier where formal advertising is impractical.

We have previously issued three reports¹ to the Congress on savings available through the use of formal advertising in contracting for specific groups of commodities for which contracts had been established through the second-phase method--light bulbs and tubes (purchases of about \$29 million annually), automotive tires and tubes (purchases of about \$17 million annually), and aircraft tires (purchases of about \$20 million annually). In each of these reports, we showed that the use of formal advertising was practical for many of the items and that the Government would realize substantial savings from the use thereof.

Our review of GSA Schedule contracts revealed three additional groups of commodities that are supplied under contracts established through the second-phase method: sound-recording and instrumentation tapes (purchases of

¹Report entitled "Substantial Savings Available Through Use of Formal Advertising Procedures in Contracting for Light Bulbs and Tubes" (B-163349, March 1968); report entitled "Savings Available Through the Use of Formal Advertising in Contracting for Automotive Tires and Tubes" (B-160900, April 1967); and report entitled "Review of Uneconomical Procurement of Aircraft Tires by the Military Services Under Federal Supply Schedules Issued by the General Services Administration" (B-146753, February 1963).

about \$4 million annually), heavy-duty electrical batteries (purchases of about \$4 million annually), and lithographic printing plates (purchases of about \$4 million annually). On the basis of price comparisons that we were able to make and the potential savings demonstrated in the three reports issued previously, we believe that the Government would realize substantial savings through the use of formal advertising for these items where practical.

The details of our findings are presented in the following sections of this report.

Present contracting method does not encourage maximum price competition

Under GSA's second-phase method of negotiating Schedule contracts, GSA requests suppliers of similar items to submit prices at which they are willing to sell their products to the Government. GSA then affords those suppliers which have submitted higher priced offers an opportunity to meet the lowest price offered to GSA. Those suppliers which agree to meet the lowest price are awarded a contract and included on the Schedule for the item.¹ Thereafter, agencies may procure their requirements for the item at the same cost from any supplier of that item listed in the Schedule.

Under this method of establishing contract prices, there is no incentive for a supplier to initially submit the lowest price at which it is willing to sell an item, because making the lowest offer will not assure the supplier of a certain amount of sales or a favorable position over other suppliers. When GSA gives suppliers a second opportunity to submit price offers, a supplier must generally only match the lowest price previously offered in order to be included on the Schedule for an item. Thus, the second

¹In the case of heavy-duty electrical batteries, as discussed on p. 14, contracts are awarded to suppliers who offer prices that are no more than 10 percent higher than the lowest price.

solicitation of price offers results in additional suppliers and not in more favorable prices to the Government.

Alternatives to the use of the second-phase method of contracting

It appears to us that the use of formal advertising is practical for establishing contracts for many of the items purchased under contracts established through the second-phase method, because Federal specifications have been developed¹ and there is a sufficient number of suppliers of the items to permit effective competition for the Government's requirements.

We believe that, for those items for which the use of formal advertising is impractical, the use of independent negotiations with each potential supplier, rather than the second-phase method, would enhance the opportunity for GSA to obtain more favorable price offers. Our belief is based on the premise that independent negotiations would usually result in various price offers and the supplier offering the lowest price would therefore be in a favorable position over other suppliers, since Federal Property Management Regulations (FPMRs), issued by GSA, require Federal agencies to purchase the product of the supplier offering the lowest price, unless an agency's particular requirements justify the purchase of a higher priced product. The FPMRs state that the purchase of a higher priced product must be justified on the basis of specific needs which are clearly associated with the achievement of program objectives. Accordingly, we believe that the use of independent negotiations affords an incentive for a supplier whose product meets agencies' requirements to offer a low price.

¹As discussed on p. 17, GSA has advised us that the existing Federal specifications need to be revised before they can be used for competitive procurement.

Prior reports on the second-phase
method of contracting

Following are summaries of the three previously issued reports to the Congress on specific groups of commodities procured through GSA Schedule contracts established through the second-phase method. In each case, we concluded that the use of formal advertising was practical for many of the items and that the Government would realize substantial savings from the use of this method of contracting.

Light bulbs and tubes

In March 1968 we reported on the procurement of light bulbs and tubes (lamps). During contract year 1966, Government purchases of lamps under GSA Schedule contracts established through the second-phase method amounted to about \$29.1 million.

We compared prices for 197 of 685 items listed in the Schedule contracts with prices obtained by the State of California for similar items under formally advertised contracts. On the basis of this comparison and of Government expenditures of \$13.3 million for the 197 items, we estimated that savings of at least \$1.7 million, or about 12 percent, might have been realized by establishing the Schedule contracts through formal advertising.

We pointed out also that purchases of other lamp items available through the Schedule contracts amounted to about \$15.8 million annually and that, therefore, to the extent that price reductions can be realized through formal advertising for these items, additional savings will result.

In response to our recommendation, GSA agreed to use formal advertising to establish the Schedule contracts for lamps. However, we were advised by GSA in June 1968 that the use of formal advertising for these items would be delayed because of the need to update existing Federal specifications and to develop additional Federal specifications suitable for formal advertising. In October 1968, GSA advised us that improved Federal specifications for about 200 lamp items, representing annual purchases of about

\$16 million, were expected to be finalized in December 1968. GSA estimates that competitive contracts for these items will be awarded by May 1, 1969.

Automotive tires and tubes

In April 1967, we reported that during fiscal year 1966 Government purchases of tires and tubes under GSA Schedule contracts established through the second-phase method amounted to about \$17 million. On the basis of (1) a comparison of prices for 174 of the 1,500 items listed in the Schedule contracts with prices obtained by four State and two city governments for the same or similar items under formally advertised contracts and (2) Government expenditures of \$6.7 million for the 174 items, we estimated that savings of about \$1.4 million, or about 20 percent, might have been realized by establishing the Schedule contracts through formal advertising.

In response to our recommendation, GSA indicated to us that formal advertising would be used for 87 high-volume tire and tube items and that it would give continuing attention to using the formal advertising contracting method where that method is practical and results in more economical procurements. In March 1968, GSA advised us that the use of formal advertising procedures to procure tires and tubes had been delayed because of the necessity of revising the existing Federal specifications. In October 1968, GSA advised us that the specifications had been revised and it was expected that competitive contracts for selected tire and tube items would be awarded by March 31, 1969.

Aircraft tires

In February 1963, we reported that during calendar year 1961 the Air Force and the Navy had awarded formally advertised contracts and contracts negotiated directly with manufacturers for aircraft tires costing about \$22 million, at prices which represented reductions of about \$6.8 million, or about 24 percent, of the cost that would have been incurred if the tires had been procured under the GSA Schedule contracts established through the second-phase method. We stated that, if a comparable percentage of reduction had

been obtained for all aircraft tires purchased by the military services during calendar year 1961, additional cost reductions would have amounted to about \$3.1 million.

The GSA Schedule contracts for aircraft tires were discontinued in August 1962.

Other commodity groups for which the second-phase method of contracting is used

Our examination of GSA Schedule contracts revealed three additional groups of commodities that are supplied under contracts established through the second-phase method. For those items for which we were able to compare the Schedule contract prices with the prices a Federal agency obtained through formal advertising,¹ we found that the agency's prices were lower.

The details of our review of the procurement of the three commodity groups follow:

Sound-recording and instrumentation tapes

GSA uses the second-phase method in establishing Schedule contracts for sound-recording and magnetic instrumentation telemetering tapes² under which Government purchases amount to about \$4 million annually. It appears to us that the use of this method of contracting is not justified for the bulk of tapes listed in the Schedule, since Federal specifications have been established and there is a sufficient number of suppliers to permit effective competition for the Government's requirements.

Our review of GSA contract files showed that Federal specifications had been established for the tape items listed in the Schedule. In addition, our analysis of the Schedule contracts and suppliers' sales reports for fiscal year 1967 revealed that practically all the tapes were available from two or more suppliers, as shown in the following tabulation.

¹Agencies are permitted to separately contract for their requirements of commodities covered by Schedule contracts under such conditions as specific exemption and exigency.

²Magnetic instrumentation telemetering tapes are used in the analogue recording of data in connection with such activities as the launching of missiles and the recording of human heartbeats.

<u>Number of schedule suppliers</u>	<u>Number of line items</u>
1	4
2	18
3	5
4	37
5	51
6	<u>13</u>
Total	<u>128</u>

During fiscal year 1967, over 99 percent of Government purchases were of tapes supplied by two or more contractors. We therefore believe that there is a sufficient number of suppliers available to permit GSA to contract for the bulk of the Government's requirements on the basis of formal advertising.

To obtain an indication of the potential savings through formal advertising for the tape requirements, we compared the prices of tapes purchased by a Federal agency under a formally advertised contract with the prices GSA obtained for comparable items under negotiated contracts. We were able to compare prices for nine of the 128 tape items listed in the Schedule contracts. On the basis of Government expenditures of about \$600,000 for the 9 items under Schedule contracts during fiscal year 1967, we estimated that savings of about \$270,000, or 45 percent, might have been realized by establishing the Schedule contracts through formal advertising. Purchases of other items available through the Schedule contracts amount to about \$3.4 million annually. Therefore, to the extent that similar price reductions can be realized through competitive procurement of the remaining items, additional savings would result.

The Federal agency whose prices we were able to compare with GSA Schedule contract prices, formally advertised for bids for the nine items on an estimated requirement basis and awarded a contract to the bidder offering the lowest total bid on the entire contract, rather than on each line

item. Following are price comparisons for certain high-dollar-volume items:

<u>Instrumentation tape description</u>	<u>GSA Schedule contract price</u>	<u>Agency price</u>	<u>Percentage agency price lower</u>	<u>Schedule purchases during fiscal year 1967</u>	<u>Potential savings</u>
1/2" x 7200', 14" reel	\$51.12	\$27.90	45	\$272,813	\$123,912
1" x 3600', 10-1/2" reel	51.61	25.70	50	100,191	50,296
1" x 2500', 10-1/2" reel	44.40	22.10	50	67,183	33,746
1/2" x 2500', 10-1/2" reel	14.48	9.89	32	55,713	17,661
1" x 7200', 14" reel	84.78	43.90	48	<u>40,063</u>	<u>19,318</u>
Total				<u>\$535,963</u>	<u>\$244,933</u>

In October 1967, we proposed to GSA that the formal advertising method of contracting be used for the Government's sound-recording and instrumentation tape requirements. In December 1967, GSA advised us that it planned to invite formally advertised bids for Schedule contracts for tape items. However, GSA advised us in March 1968 that it had been determined that the Federal specifications for the tape items were outdated and inadequate for use in competitive procurement and that it might be as long as a year before updated Federal specifications would be available. As of October 1968, GSA was preparing the first draft of the revised specifications.

Heavy-duty electrical batteries

GSA uses the second-phase method in establishing Schedule contracts for heavy-duty batteries¹ under which Government purchases amount to about \$4 million annually. We believe that GSA's waiver of the requirement to formally advertise for commonly used battery items may not be justified.

Most items listed in the Schedule contracts are not batteries, as such, but are individual cells that are combined by manufacturers into unit packages to electrically and physically form the particular types of batteries which agencies require. Federal specifications have generally been established for components, rather than for complete batteries. In a finding and determination statement for the battery contracts, GSA waived the requirement for formal advertising on the basis that it was not possible to determine accurately, in advance, agencies' requirements as to quantity, type, size, and geographic location.

In negotiating prices for battery items, GSA advises bidders of the low offer received and requests that this price be met. If a bidder does not agree to meet the low offer, he is not necessarily denied a contract for the item--as is the case with the other commodities discussed in this report. GSA procurement officials advised us that, as a general rule in contracting for batteries, if a price offered by a supplier in the second-phase of the negotiations is no more than 10 percent higher than the lowest price offered, the supplier is awarded a Schedule contract for the particular item.

An official of GSA's Standardization Division advised us of his belief that, if information were available regarding Government requirements, it would show that there are certain commonly used batteries which could be

¹Heavy-duty batteries are used primarily to power material-handling equipment, such as fork-lift trucks.

standardized and for which Federal specifications could be developed. In addition, representatives of the two largest suppliers under the Schedule have advised us that the industry is highly competitive and that generally any major manufacturer could supply most types of batteries.

We believe, therefore, that, to enhance the opportunity for the Government to obtain more favorable prices for its battery requirements, GSA should (1) identify commonly used batteries, (2) develop Federal specifications for such items, and (3) use formal advertising to establish Schedule contracts for these items. We believe that, for those items for which competitive advertising is not practical, independent negotiations with each potential supplier, rather than the second-phase method, should be used.

Printing plates

GSA uses the second-phase method in establishing Schedule contracts for lithographic printing plates¹ under which Government purchases amount to about \$4.2 million annually. We believe that GSA should formally advertise or independently negotiate for the plate requirements, as appropriate.

The waiver of the requirement to procure lithographic printing plates through formal advertising was justified by GSA in a finding and determination statement in which it was indicated that the existing Federal specifications allow each manufacturer to outline instructions for processing its own plates. GSA stated that the technique used in preparing plates and the processing time required varied with each brand of plate and that, once an operator became accustomed to a certain process, it was difficult for him to obtain the same results with another brand of plate.

Our analysis of the Schedule contracts and suppliers' sales reports for the contract year ended September 30, 1967, showed that Federal agencies' purchases of 36 printing

¹Lithographic printing plates--made of metallic or paper materials--photographically accept impressions which are transferred to rubber-blanketed cylinders used in the final printing process.

plate items exceeded \$25,000 each and that total purchases of the 36 items amounted to \$3.1 million, or 73 percent, of the \$4.2 million of Government purchases of printing plates from Schedule suppliers. In addition, each of the 36 items was available from more than one Schedule supplier, as shown in the following tabulation.

<u>Number of Schedule suppliers</u>	<u>Number of line items</u>
2	1
5	3
6	4
7	6
8	5
9	3
10	<u>14</u>
Total	<u>36</u>

During our review, we found that the State of California had formally advertised for its printing-plate requirements, which we believe indicates the practicality of formal advertising for this type of item. Comparisons of GSA and State costs were not feasible, however, because of differences in the descriptions of the items covered by the respective contracts.

We believe that, to enhance the opportunity for the Government to obtain more favorable prices for its plate requirements, GSA should examine into the practicality of using formal advertising to establish Schedule contracts for these items. To the extent that formal advertising cannot be instituted, we believe that GSA should independently negotiate with each potential supplier.

Recommendations

We recommend to the Administrator of General Services that GSA:

- discontinue the use of the second-phase method of contracting,
- take the necessary steps to use formal advertising in establishing Schedule contracts where practical, and
- use independent negotiations in establishing Schedule contracts for items that are not susceptible to formal advertising.

GSA comments and GAO evaluation thereof

In a letter dated August 26, 1968 (see appendix), the Administrator advised us that GSA agreed that formal advertising should be used in establishing Schedule contracts whenever practical and feasible and that due consideration should be given to the total cost of supply. He stated that GSA intended to pursue its studies and planned to convert multiple-award contracts to competitive-award contracts, to the full extent of its available resources.

With reference to sound-recording and instrumentation tapes, heavy-duty electrical batteries, and lithographic printing plates, the Administrator stated that existing Federal specifications were not adequate for competitive procurement contemplating single awards. He stated also that, until such time as the specifications could be appropriately revised, GSA planned to award future Schedule contracts for these commodities through the use of independent negotiations. He stated further that independent negotiations would be considered for light bulbs and automotive tires and tubes if unavoidable delays and difficulties were encountered in the conversion to competitive procurement for these commodities. We conclude, therefore, that GSA is in agreement with our recommendations.

As stated by the Administrator in his letter, the costs of technical research and development to establish Federal specifications that will permit formal advertising are frequently heavy and that current budgetary restrictions may prevent the allocation of sufficient resources to perform the work within the most desirable time frames.

We recognize that GSA's resources are limited and we believe that it is important for GSA to concentrate on areas which will yield the greatest estimated benefits. It appears to us that specification development would be a strong contender for these resources in any systematic evaluation. For example, there is the case, cited by the Administrator in his letter, where the development of Federal specifications for one type of electronic data processing tape, for which GSA had previously contracted through the use of the second-phase method, required an investment of about \$1.5 million. We estimate that during the 12-month period beginning March 1, 1968, Government procurement costs for the requirements of these tapes will be reduced about \$8 million, or 48 percent, through the use of formal advertising that was made possible by the development of appropriate Federal specifications--a return during the first year of over five times the \$1.5 million investment.

As mentioned previously in this report, GSA is making progress in improving the Federal specifications for light bulbs and tubes, automotive tires and tubes, and sound-recording and instrumentation tapes.

APPENDIX

GENERAL SERVICES ADMINISTRATION



Washington, D.C. 20405

AUG 26 1968

Mr. Irvine M. Crawford
Assistant Director, Civil Accounting
and Auditing Division
General Accounting Office
Room G-44, GSA Building
Washington, D. C. 20405

Dear Mr. Crawford:

Reference is made to your letter of June 25, 1968 transmitting for our review a copy of your draft report entitled, "Need to Discontinue the Use of Contracting Procedures that Inhibit Competition."

In your report you recommend:

"GSA prohibit the use of second-phase negotiating procedures.

"GSA take the necessary steps to use formal advertising procedures in establishing Schedule contracts where practicable and feasible for sound recording and instrumentation tapes, heavy-duty electrical batteries, and lithographic printing plates.

"GSA use independent negotiating procedures for establishing Schedule contracts for items that are not susceptible to formal advertising."

We, of course, agree that formal advertising procedures should be used in establishing Federal Supply Schedule contracts wherever practicable and feasible, with due consideration to the total cost of supply. Multiple-award Federal Supply Schedules have been subjected to continuous study with the primary objective of "breaking out" items susceptible to competitive procurement. A major study in 1964 led to the breakout of fifteen (15) commodity categories with annual purchases of about \$9 million which are now competitively procured. Numerous other commodities, including those discussed in your report, have been identified as susceptible to competitive procurement contingent upon the development of adequate specifications, inspection and testing capabilities, reliable data for proper zoning of procurements, contract administration capabilities, accommodation of small business and labor surplus area policies and various other technical problems. These problems are

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APPENDIX

Page 2

either not present or are more easily resolved under the Multiple Award method of contracting since alternative contract sources are available to the using agencies.

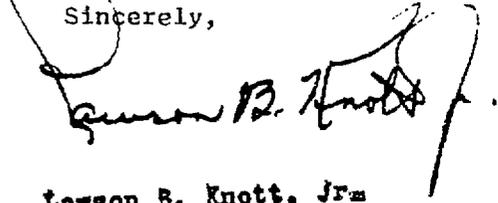
We intend to pursue our studies and plans to convert multiple-award contracts to competitive award contracts to the full extent of our available resources. However, the costs of technical research and development are frequently heavy; for example, in the case of only one type of $\frac{1}{2}$ -inch 800 BPI electronic data processing tape, a total investment on the order of \$1.5 million in personnel time and equipment, plus a period of about two years, was necessary in order to do the research and product evaluation required to develop a specification adequate to support competitive procurement. Continuing heavy expenditures for the purpose of keeping the specification current with technological advances and for the maintenance of adequate acceptance testing capability will be necessary if the validity of the specification requirements and test methods is to be maintained. Current budgetary restrictions imposed by the Revenue and Expenditure Control Act of 1968, therefore, may prevent the allocation of sufficient resources to perform work on additional items so as to accomplish our objectives within the most desirable time frames.

With specific reference to sound recording and instrumentation tape, heavy duty electrical batteries, and lithographic plates, while the specifications for these commodities have been used as a basis for the so called "second-phase" negotiating procedures employed in developing multiple award contracts for these commodities, these specifications are not adequate for competitive procurement contemplating single awards. Accordingly, until such time as the specifications can be appropriately revised, we plan to award future Multiple Award Federal Supply Schedule contracts for these commodities through the use of independent negotiating procedures. If it is found feasible and practical to break out for competitive procurement certain of the items contained in these categories prior to a wholesale conversion, that will be done. Independent negotiating procedures will also be considered for light bulbs and tubes and automotive tires and tubes if unavoidable delays and difficulties in specification revisions, testing programs, and other arrangements make it necessary to extend the multiple award Schedules beyond the target dates established for the conversion to competitive procurement of high volume items in these commodity categories.

Our plan to use independent negotiating procedures has been influenced by the development of an intensified negotiation program whereunder we are requiring more extensive marketing data from each prospective contractor, obtaining the most favorable discount which can be negotiated with any offeror for a given product, and seeking to obtain similar concessions from other offerors having similar marketing practices.

We appreciate the opportunity to review this draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Lawson B. Knott, Jr.", with a large, stylized flourish extending from the end of the signature.

Lawson B. Knott, Jr.
Administrator